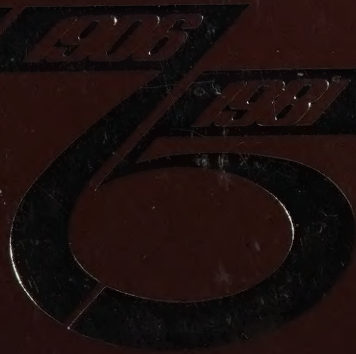


EMCO LIMITED ANNUAL REPORT 1980

AR78



EMCO LIMITED

Financial Summary

Dollars in thousands except for share data.

	1980	1979	% Change
Sales	<u>\$316,298</u>	<u>277,305</u>	+14
Earnings before extraordinary items	\$ 11,878	10,753	+10
Extraordinary items	(90)	347	
Net earnings	<u>\$ 11,788</u>	<u>11,100</u>	+6
Per common share:			
Basic earnings:			
Before extraordinary items	\$ 2.56	2.37	+8
Including extraordinary items	2.54	2.45	+4
Fully diluted earnings:			
Before extraordinary items	2.50	2.27	+10
Including extraordinary items	2.48	2.35	+6

ANNUAL MEETING

The Annual Meeting of the Shareholders will be held at the Holiday Inn, City Centre Tower, 300 King St., London, in the Victoria/Albert Room, at 10:30 a.m. on May 19, 1981.

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In the 75 years since its incorporation in 1906, Emco Limited has flourished. Today, Emco has manufacturing facilities in eight countries and its products are marketed in more than 100 nations. Emco's Plumbing and Industrial Group serves the Canadian plumbing and heating industry, while the Petroleum Equipment Group continues to strengthen its position as one of the world's leading suppliers of specialized equipment used in the oil and petrochemical industries for the transfer of crude oil and refined petroleum products.



TO OUR SHAREHOLDERS

A Record Year

We are pleased to report record sales and earnings in 1980. Consolidated sales were \$316 million, an increase of 14% over 1979 sales of \$277 million. Net earnings, excluding extraordinary items, were \$11.9 million, compared with \$10.8 million in 1979, an increase of 10.4%. Fully diluted earnings per share, before extraordinary items, were \$2.50, compared with \$2.27 in 1979. Extraordinary items reduced earnings in 1980 by 2 cents per share and increased earnings in 1979 by 8 cents per share.

In August 1980, 245,317 common shares were issued for approximately \$2.2 million cash on the exercise of share purchase warrants. Even though fixed asset additions of about \$7.4 million were at record levels, working capital increased at year end by nearly \$7.7 million.

In 1981 we are expecting a non-recurring gain in the United Kingdom of approximately \$1.5 million as a result of pending changes in tax legislation in that country. Further particulars are set out in note 6 to the financial statements.

This is the first year that Emco has reported segmented financial information and you are encouraged to study the information set out in note 12 to the financial statements. We have segregated our business into "plumbing and industrial products" and "energy related products" with this latter classification including the business of our Petroleum Equipment Group of companies and other products from the Plumbing and Industrial Group which are used in the energy field. We are continuing our program of emphasizing growth in the energy products segment of the economy.

Our earnings, dividends and return on shareholders' equity have shown steady improvement since 1976 and we are particularly proud of our results in 1980, a year that was difficult in many ways.

Operating Highlights

Each of our major operating groups recorded excellent results in 1980. Despite an 18% decline in new housing construction in 1980, Plumbing and Industrial Group sales increased more than 6% to \$224 million from \$211 million in 1979. These results indicate that the housing construction market is not as important to our overall results as it was 10 years ago. Our share of the more stable commercial, industrial, waterworks and replacement markets has increased to offset any effects of the decline in residential construction. In addition, our retail plumbing lines, both Emco and Peerless, have met with great success as have our new products such as the Spra-Rite do-it-yourself in-ground lawn sprinkler system.

Petroleum Equipment Group sales increased nearly 40% from \$66.1 million in 1979 to \$92.2 million. Approximately half of this sales increase resulted from the integration of RNG Equipment Inc., Ritepro Inc. and the

J.B. Reimann Companies (all purchased in late 1979) with existing operations. Prospects for this Group remain excellent as it continues to diversify by broadening its geographical and product bases.

Acquisitions

During 1980, Emco Limited initiated negotiations which culminated in early 1981 with the purchase of two European firms.

In the largest transaction ever undertaken by your company, the business of Horn KG of Flensburg, West Germany will be acquired on March 31, 1981 for approximately \$18.25 million. Horn KG is a leading West German manufacturer of small pumps for dispensing oil and oil mixtures. The company also manufactures a line of manual and air-operated dispensers for fueling motorbikes and other two-stroke engines which require a mixture of oil and gasoline. Horn KG has built a strong research and development department which is highly regarded by the oil industry in West Germany. Horn has developed several new patented products which we believe will have a significant impact in many markets on the distribution of motor oil for automotive uses. Presently, 95% of Horn's sales are in West Germany but the company's products have export potential through our worldwide distribution system.

Emco also purchased 80% of the shares of Volumatic S.A., a small French manufacturer of pumps and blending systems for use in the oil and petrochemical industries. Volumatic's manufacturing and warehousing facilities are near Tours and its sales office is in Paris. It is expected that Volumatic's association with the worldwide Emco Wheaton group will provide increased export opportunities for the French firm.

Outlook

The Canadian economy is not expected to show strong growth in 1981. High inflation, unemployment and interest rates continue to have an adverse impact on this country's economic development. In addition, the present domestic energy situation has created considerable uncertainty. In 1980, several major energy development projects were delayed, largely because of uncertainty over energy pricing policies. The impact of these delays is considerable. Not only does their postponement push back the prospects of energy self-sufficiency, but direct and indirect economic consequences will be felt across the country. The delay of a major engineering and construction project also means the delay of secondary facilities such as housing, hospitals, roads, transportation services, sewer and water services and secondary manufacturing. For that reason, it is vital that the constraints imposed by the energy dispute be lifted so that Canada's economic recovery can proceed.

Despite these general economic conditions, we believe markets for Emco's Plumbing and Industrial Group products will be relatively strong in 1981. Housing starts

are expected to climb 12.5% to 180,000 after several years during which the supply of new housing stock did not keep pace with demand. In recent years, we have been successful in participating in an increasing share of commercial, institutional and energy-related construction. Capital investment in these sectors will increase in 1981, continuing a recent trend which saw non-residential building and engineering construction increase from 62% of total construction expenditures in 1976 to 66% in 1979.

With virtually all markets for our products becoming more competitive, the major \$4 million capital expenditure for a new brass foundry in our London factory will improve our position by enabling us to reduce manufacturing costs, improve the quality of our products and provide superior service to our customers.

The Petroleum Equipment Group will continue to expand into new energy-related markets in 1981 and beyond. One which holds particular promise is the use of propane as an automotive fuel for fleet use. The use of propane (liquefied petroleum gas) is being encouraged by both federal and provincial governments. We are actively researching the potential of this new market in Canada.

The operational reports which follow contain information about the performance of our two major groups in 1980. Although we anticipate that earnings in the first half of 1981 will be lower than in the first six months of 1980, Emco's performance should be more than satisfactory in this, our 75th anniversary year, based on last year's results and our analysis of prospects for 1981.

Peter J. Ivey has announced that he plans to resign from the Board of Directors at the forthcoming annual meeting in order to pursue his business interests. In his 28 years as a Director, Mr. Ivey has made a great contribution to this company, for which we are grateful.

We are confident that we can maintain our momentum in aggressively leading a loyal and dedicated group of employees to greater achievements in the years ahead.



John W. Adams
President, Chief Executive Officer
February 20, 1981



REVIEW OF OPERATIONS

Plumbing & Industrial Group

Plumbing and Industrial Group

From the many locations across Canada that make up the Plumbing and Industrial Group emerge more than 10,000 different plumbing, heating and industrial products ranging from relatively simple faucets to industrial components made to rigid specifications. The Supply operation of the Group with a coast-to-coast network distributes products made by Emco and its subsidiary companies. In addition, it also handles complementary product lines made by other manufacturers.

DIVISIONS

Emco Supply

Barrie	Medicine Hat	Sault Ste. Marie
Belleville	Moncton	Saskatoon
Calgary	Montreal	Sherbrooke
Dawson Creek	(Lachine)	St. Catharines
Edmonton	North Bay	St. John's
Grande Prairie	Oshawa	Sudbury
Guelph	Ottawa	Terrace
Halifax	Peterborough	Toronto (Weston)
(Dartmouth)	Prince George	Ville de Brossard
Kitchener	Quebec	Windsor
Lethbridge	Regina	Winnipeg
London	Saint John	

General Manufacturing

- London Factory, London, Canada - manufacturer of plumbing, heating and industrial piping products.
- Emco Plastics Limited, Brampton, Ontario - manufacturer of plastic plumbing and piping components.
- Delta Faucet of Canada Limited, Bowmanville, Ontario - manufacturer of Delta, Delex and Peerless faucets.

CCTF

Toronto, Ontario - supplier of steel welding fittings for industry.

Branches - Vancouver, British Columbia; Seattle, Washington; Denver, Colorado; Buffalo, N.Y.

Divisional Operating Executives

J.J. Wareham	Eastern Regional Manager, Emco Supply
W.L. Douglas	Vice-President, Central Region
	Emco Supply
W.M. Eager	Western Regional Manager, Emco Supply
D.J. Hackett	Vice-President and General Manager, CCTF
P. Penna	General Manager, Emco Plastics Limited
G.D. Thompson	Vice-President and General Manager, Delta Faucet of Canada Limited

Plumbing and Industrial Group sales increased by \$13 million to \$224 million in 1980. Sales in our traditional markets were strong, while we succeeded in exploring new opportunities such as the marketing of retail products not allied with our traditional product groups. In recent years, we have concentrated on markets with a strong growth potential, particularly the commercial, industrial, waterworks, replacement and do-it-yourself markets. We will continue to develop our presence in these vital markets by executing comprehensive, well-planned marketing programs and introducing new products with strong sales potential.

London and Brampton Plants

Emco's 320,000 square foot London plant manufactures a complete range of Emco-brand residential faucets, valves, waterworks products and copper fittings as well as hospital and institutional faucets. The 120,000 square foot Brampton plant manufactures parts for the Emco and Delta faucet lines, ABS fittings for use in plumbing and drainage systems and products for other industries such as automotive parts, power tools, recreational items and electrical devices. Products of the London and Brampton factories are warehoused centrally in Brampton and regionally in Vancouver and Calgary. They are distributed across Canada through independent wholesalers and Emco Supply branches.

During the last quarter of 1980, a \$4 million mechanized foundry was installed in the London plant, making it the most modern foundry in Canada. In addition to lower unit costs and increased capacity, the new equipment will greatly improve the quality of our castings and enable us to give better service to our customers.

Overall sales in 1980 were quite strong in areas of Canada experiencing rapid economic growth. All product lines were affected by regional variations in economic activities. During 1980, retail sales were reasonably strong with evidence of growing market acceptance of our line of plumbing brass and supplies. Several new products to be introduced in 1981 should, along with new marketing programs, increase the sales potential of our London and Brampton plants.

Spra-Rite Canada

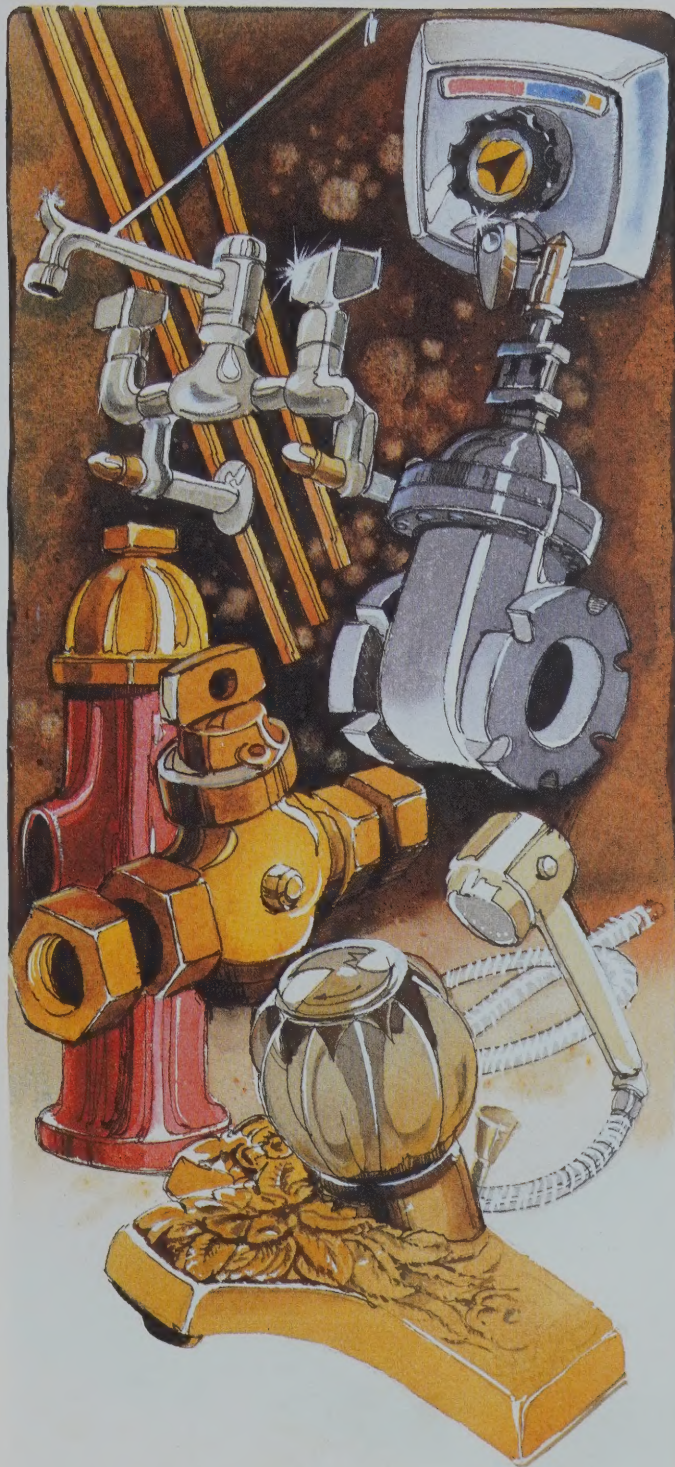
This division of the London factory markets Sprarite do-it-yourself in-ground lawn sprinkler systems. This new product was introduced to the Canadian market in 1980 and received an excellent reception from consumers who were impressed by its efficiency and economy. A major new television advertising campaign is expected to help produce a substantial sales increase for Sprarite in 1981. Sprarite do-it-yourself in-ground lawn sprinkler systems are a good example of how we intend to diversify our product range to minimize the impact of seasonal lulls in some of our traditional markets, such as the housing construction industry.

Delta Faucet of Canada Limited

This subsidiary manufactures and markets the famous Delta single and two-handle washerless faucets in Canada.

Delta's washerless faucet concept continued to gain acceptance from both consumers and plumbing contractors in 1980. Unit sales volume increased over 1979, while sales dollars rose by 17%. These increases resulted from continued emphasis on selling to the plumbing contractor, builder and consulting engineer. A major new consumer advertising program extolling the qualities of Delta products and the advantages of installation by a qualified contractor also contributed to Delta Faucet's success in 1980. During 1981, our consumer and trade advertising efforts will be intensified as we continue to implement a sophisticated plan to promote the benefits of Delta products.

In 1981, greater emphasis will be put on introducing new products for the commercial, industrial, renovation and remodelling markets.



REVIEW OF OPERATIONS

Plumbing & Industrial Group

Peerless Faucet Company

The products of this division of Delta Faucet of Canada Limited are sold in hardware, department, building supply and specialty stores as well as home improvement centres across Canada. Although these retailers of Peerless products tended to be cautious in their purchasing during the past year, Peerless Faucet Company continued to increase its share of the do-it-yourself retail plumbing products market. Sales increased by 22% in 1980.

During 1980, the product base of Peerless was strengthened by the introduction of a moderately priced "Designer Collection" of decorator faucets. A highlight of 1981 will be the presentation of a well-planned parts and accessories program designed to fill the needs of major retailers. As in the past, trade and consumer advertising will continue to play a large role in the growth of Peerless Faucet Company.

Emco Supply

Emco Supply operates in major Canadian cities as the leading distributor of plumbing and industrial products (such as pipe, fittings and valves) to mechanical contractors. This division also sells material to sewer and waterworks contractors, municipalities, federal and provincial governments, industrial accounts, mines, paper mills, building supply houses, hardware stores, oil refineries and petrochemical plants. Sales have been strong to the commercial and industrial sector, municipal, provincial and federal governments, industrial accounts and do-it-yourself accounts. As a result, Emco Supply more than held its own in 1980, with sales and earnings exceeding forecast.

Emco Supply continued to improve its physical facilities in 1980 with the purchase of a major property in St. John's, Newfoundland and expansion of its land and buildings at Kitchener, Saskatoon, Grande Prairie and Terrace. A new branch was opened in Dawson Creek, British Columbia.

Market conditions will remain about the same in 1981 and sales and earnings should exceed those of 1980.

CCTF

Formerly known as Canadian Clyde Tube Forgings Limited, CCTF is the largest supplier in Canada of welding fittings and flanges to industry. Major markets for this division's products are the petrochemical and energy processing industries which have strong growth potential for the foreseeable future.

CCTF maintained its market position in 1980, achieving record sales and improved earnings. CCTF introduced a high quality line of iron pipe fittings which is expected to contribute substantially to 1981 results. The Toronto manufacturing facilities of CCTF were expanded in 1980 to include production of a complete range of small diameter high pressure fittings.

United States operations expanded with the establishment of new warehouses in Buffalo, New York and Denver, Colorado to enable CCTF to satisfactorily service virtually all areas of that country. The Seattle branch continued to make strong gains in the Pacific Coast market, adding a number of important customers in 1980.

The expanded range of products and the larger area now served should make 1981 a highly successful year for CCTF.

Overall Outlook for Plumbing & Industrial Products

In 1981 economic growth in Canada is unlikely to exceed 1% in what promises to be another rather flat year. Inflation and unemployment will remain above acceptable levels. Despite some gloomy economic indicators, 1981 should be a satisfactory year for the Plumbing and Industrial Group.

Bank interest and mortgage rates are expected to moderate in 1981 and a decrease in these rates will spur the construction industry generally. Construction of new housing units is expected to increase to about 180,000 from 160,000 in 1980, a year in which the housing market was actually under-supplied. Builders reduced their activity last year because of economic uncertainty, thereby creating a pent-up demand for new housing which must be met in 1981. Apartments and other rental units will be in strong demand because of short supply in several urban areas. The decision by the federal government to reinstate tax incentives for investors in multiple unit residential buildings (MURB's) will also help to promote construction of rental units in 1981.

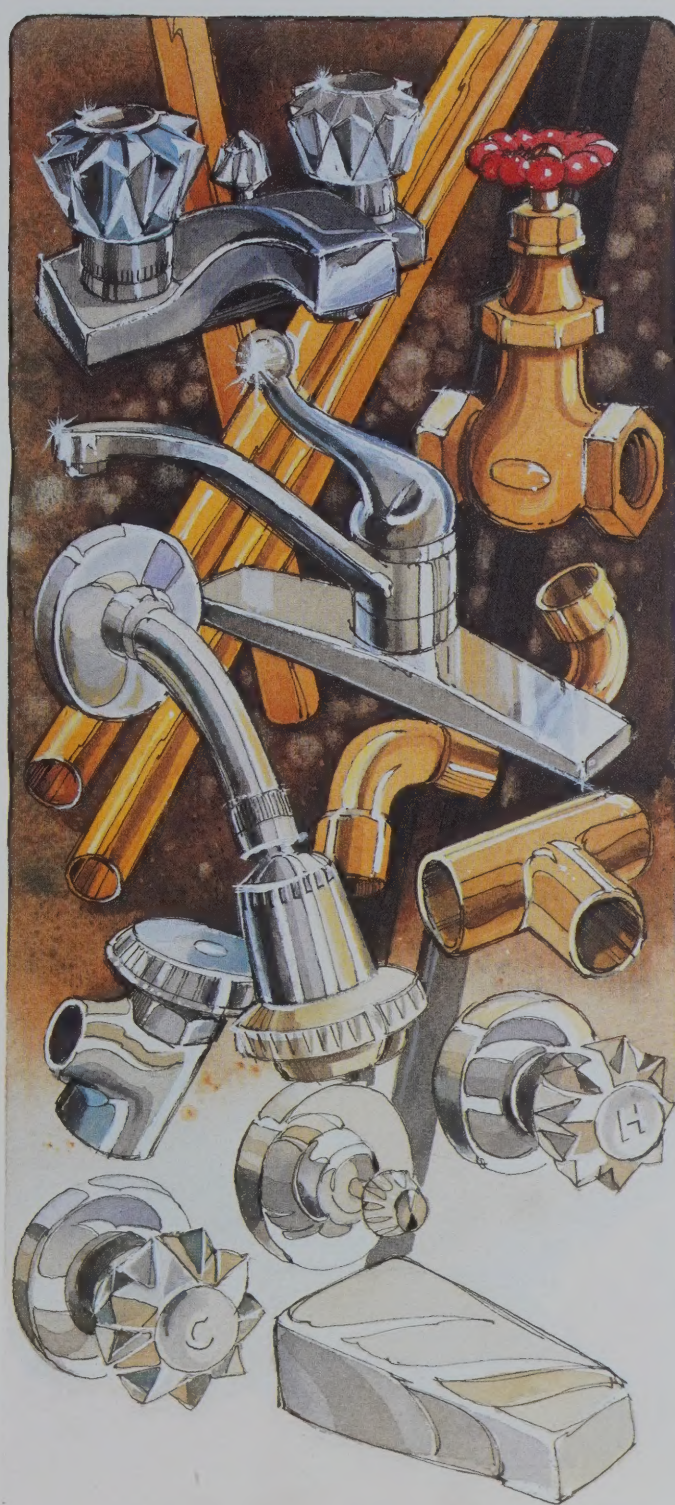
The home renovation industry should continue to be strong in 1981 as investors and homeowners turn to modernization when faced with soaring energy costs, rising material prices and high interest rates.

Overall capital spending in Canada is expected to increase by more than 15% in 1981. Outlays by government, education, health and social services will likely increase by 9%. Capital spending by business could climb by 19% in 1981, paced by a 24% increase in spending by the petroleum and natural gas industries. Barring unforeseen complications resulting from continued high interest rates, commercial and industrial products appear headed for another good year. In summary, we expect this year will be a better year for all product groups.

R.S. MacLean

R.S. MacLean

Vice-President, Plumbing & Industrial Group



REVIEW OF OPERATIONS

Petroleum Equipment Group

Petroleum Equipment Group

The Petroleum Equipment Group manufactures and distributes highly engineered fluid handling equipment used in oil and petrochemical industries around the world. The products, offered under the Emco Wheaton name, range from service station nozzles and fleet fueling systems to tank truck loading assemblies, marine loading arms and bunkering units to vapor recovery systems. These Emco Wheaton products reach world markets through plants in England, France, West Germany, Japan, Australia, Brazil, U.S.A. and Canada.

CORPORATE OFFICE

Emco Wheaton International Limited,

Mississauga (Toronto), Canada
R.H. Wedgbury, President
A.R. Martin, FCA, Vice-President Finance
R.F. Howard, Vice-President Marketing
P.S. Seybold, Vice-President Operations
T.F.J. Rose, Vice-President Engineering

OPERATING DIVISIONS

Emco Wheaton Australia Pty. Limited

Sydney, Australia
Engineering Products Pty. Limited
J.B. Reimann Division
EMGAS Pty. Limited

Emco Wheaton Industria E Comercio S.A.

Rio de Janeiro, Brazil
J.B. de Castro, Director and General Manager

Emco-Wheaton Limited

Toronto, Canada
R.M. Clark, President
R.N.G. Equipment Inc.
Ritepro Inc.

Emco Wheaton U.K. Limited

Margate, England
W.F. Shutler, Managing Director

Emco Wheaton S.A.

Paris, France
G. Herd-Smith, General Manager

Emco Wheaton GmbH

(76% owned) Kirchhain, West Germany
W. Buchmueller, General Manager

Emco Wheaton (Japan), Limited

Yokohama, Japan
G. Teramura, General Manager

Emco Wheaton Inc.

Conneaut, Ohio and Gulfport, Mississippi,
United States
J.G. Beresford, President

The Petroleum Equipment Group produces highly engineered systems used for handling and transferring fluids in the petroleum and petrochemical industries. These products include service station nozzles, fleet fueling systems, tank truck loading assemblies, marine loading arms for the transfer of a super tanker's liquid cargo, vapor recovery systems, quick release couplings and specialty valves.

The Petroleum Equipment Group, under the Emco Wheaton trademark, improved its position in 1980 as the world leader in the supply of tank truck loading assemblies and fittings. Sales of quick release couplings and marine loading arm assemblies made significant progress. A \$4 million order (the largest in the Group's history) for low temperature marine arms to transfer liquid petroleum gas at -50°C was supplied to Aramco in Saudi Arabia in the first quarter of 1981.

Operating Highlights

Consolidated sales for the Group increased 40% over 1979. Most of this growth is due to the Group's diversification strategy, with 22% coming from acquisitions made in 1979.

Operating profit increased substantially and again was the highest since the Group's inception. RNG Equipment Inc., Ritepro Inc. and the J.B. Reimann Companies, all acquired in late 1979, were integrated with existing operations, adding \$14.8 million to consolidated Group sales.

Recession, high inflation and high interest rates continue to depress the economies of most countries in which we operate. Our strong performance under these adverse conditions is a credit to our diversification, marketing and cost reduction efforts.

Canada

Sales and earnings increased substantially from 1979 due to the smooth integration of RNG Equipment Inc. and Ritepro Inc. with our existing Canadian operation. Weak demand in the Canadian market was offset by strong gains in export sales, particularly of Ritepro Inc. quick release couplings and check valves.

Acquisitions have broadened our product range, making our Canadian operations a dominant factor in their markets.

Strengths in petroleum distribution, propane gas and industrial fluid handling equipment provide a solid base for continued growth. Propane distribution is an attractive field as considerable emphasis is now placed on developing alternate automotive fuels. The Canadian division is using our experience in propane carburetion in Australia to investigate the expansion of this activity in Canada.

United States

Inflation, high interest rates and a recession during the last half of the year had a marked impact on our markets. Implementation of Phase I and Phase II Vapor Recovery Legislation created strong demand for our product in 1979, but the pace of implementation slowed in 1980. Despite this, modest sales gains were achieved due largely to an increase in our market share.

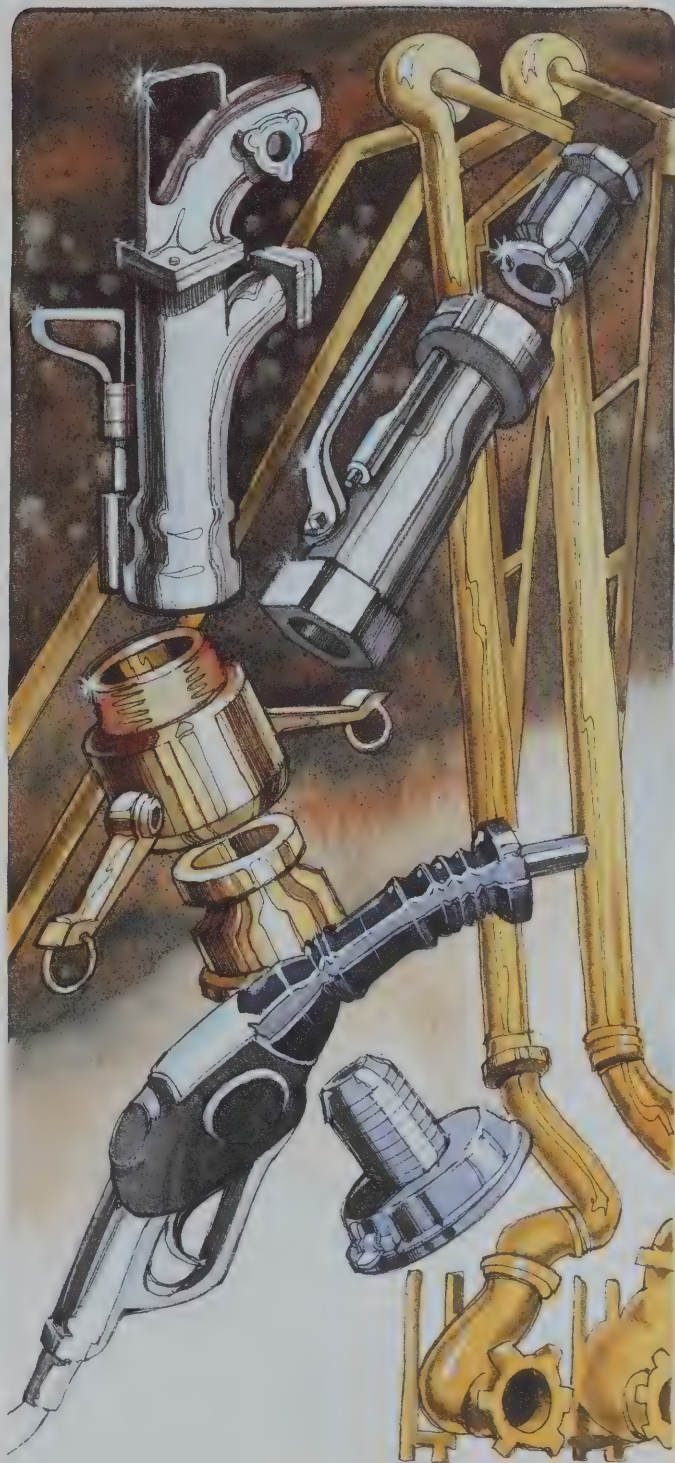
As the economy recovers, the outlook is good for all products of the Conneaut, Ohio plant, particularly vapor recovery equipment at the terminal, tank truck loading and tank truck delivery points.

In Gulfport, Mississippi, sales of the Marine Loading Arm Division increased substantially over 1979 levels, but operating results failed to keep pace. This was the result of keen competition for available business which exerted strong pressure on margins. Orders continue at a good level and we expect improved results from this division in 1981.

Brazil

Economic conditions in Brazil had a marked impact on our business during 1980, particularly in the last quarter when imports of manufactured parts were virtually frozen by balance of payment problems. As a result, completion of a major sales order was delayed and other projects were only partially completed at year end.

Sales were lower than anticipated because of reduced demand for our product as a result of extremely high interest rates and an annual inflation rate of 100%. These factors had a negative impact on operating results. During the last quarter of 1980, this division concentrated on locally manufactured products which required no imported components. Orders for these products are at an acceptable level.



REVIEW OF OPERATIONS

Petroleum Equipment Group

United Kingdom

The United Kingdom manufacturing industry suffered its worst recession since the Second World War. Our domestic business was affected, but the effects were offset by strong sales into export markets, particularly the Middle East. Despite domestic market problems, 1980 was a successful year for the U.K. division, with sales and profits setting all-time records and continuing to show a clear pattern of growth in real terms.

Equipment manufactured by the U.K. division has gained an outstanding reputation for quality. With a successful record of meeting delivery dates, the division is moving into a leadership position which will be reinforced by the introduction of new products such as air-operated tank truck equipment and devices for the control and measurement of product in road and rail tank cars. During 1980, the largest marine arm order in our history was received.

We are continuing to seek out acquisitions to capitalize on our management and business expertise in an effort to more fully utilize our resources during the early 1980's.

France

Economic conditions in France resembled those in the United Kingdom. The slowdown had an impact on sales during the year. Operations were adversely affected by order cancellations and the bankruptcy of one of our major customers.

With the purchase of 80% of the shares of Volumatic S.A., this division has enhanced its manufacturing capability. The integration of Emco Wheaton France with Volumatic offers synergy in manufacturing, marketing and distribution which should result in improved performance during 1981.

West Germany

The recession that affected the United Kingdom and France was not evident in the German division's results. Sales and earnings in 1980 were the highest ever recorded. Strength in our sales of vapor recovery products and the introduction of new products for the chemical market contributed to our strong performance.

The weakening of the German mark against the British pound and the American dollar is providing new export opportunities and continued strong performance is expected through 1981. The search for acquisitions to develop our product base and strengthen our capabilities in manufacturing, engineering and marketing resulted in the purchase of Horn KG early in 1981. The pumps which Horn KG manufactures for dispensing oil and oil mixtures are ideal complements to our existing products and should provide promising export opportunities.

Japan

As in previous years, the Japanese operation continued its slow but steady recovery from the 1974 oil crisis. Sales increased moderately, but operating profit increased substantially as a result of cost reduction and value engineering programs which produced good margin improvements. The demand for our goods and services in Japan has slackened somewhat, but with the solid performance posted in 1980 and a reasonable order book, steady improvement is expected in 1981.

Australia

The past year was one of reorganization and integration of existing operations and newly-acquired companies in Australia. Sales doubled in 1980 for the second straight year. Marketing and sales policies were implemented to maximize distribution and service capabilities and to improve customer service.

The J.B. Reimann Companies, acquired in late 1979, performed strongly and offset the downtrend in sales and profits of Emco Wheaton Australia Pty. Limited and Engineering Products Pty. Ltd.

Earnings were below planned levels, primarily due to weak sales of propane carburetion equipment. The anticipated surge in the use of propane (liquefied petroleum gas) for fueling automobiles did not materialize during 1980. Large scale conversion to propane from gasoline will be delayed two to three years until uncertainties over supply have been removed and solid government support given to maintaining a price differential between propane and gasoline. As a result of the delay, the EMGAS business, which involved the manufacture and installation of propane carburetion equipment, has been restructured to concentrate on research and development.

Near-Term Outlook

The Petroleum Equipment Group has shown a compound growth rate of 27% during the last five years. This momentum will carry it through a continuing period of low economic activity, high inflation and high interest rates.

Each operating division places a high priority on asset management. Coupled with aggressive cost reduction and value engineering programs, this should produce an increase in operating profits despite a lower level of sales growth than in the past few years.

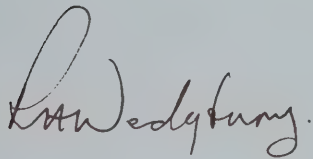
During this period, our organization will be reviewed to ensure that Group management can capitalize on an expected economic upturn and fully exploit our broader product base. New products and new markets now emerging will provide for continued growth and improved profitability.

Long-Term Strategies

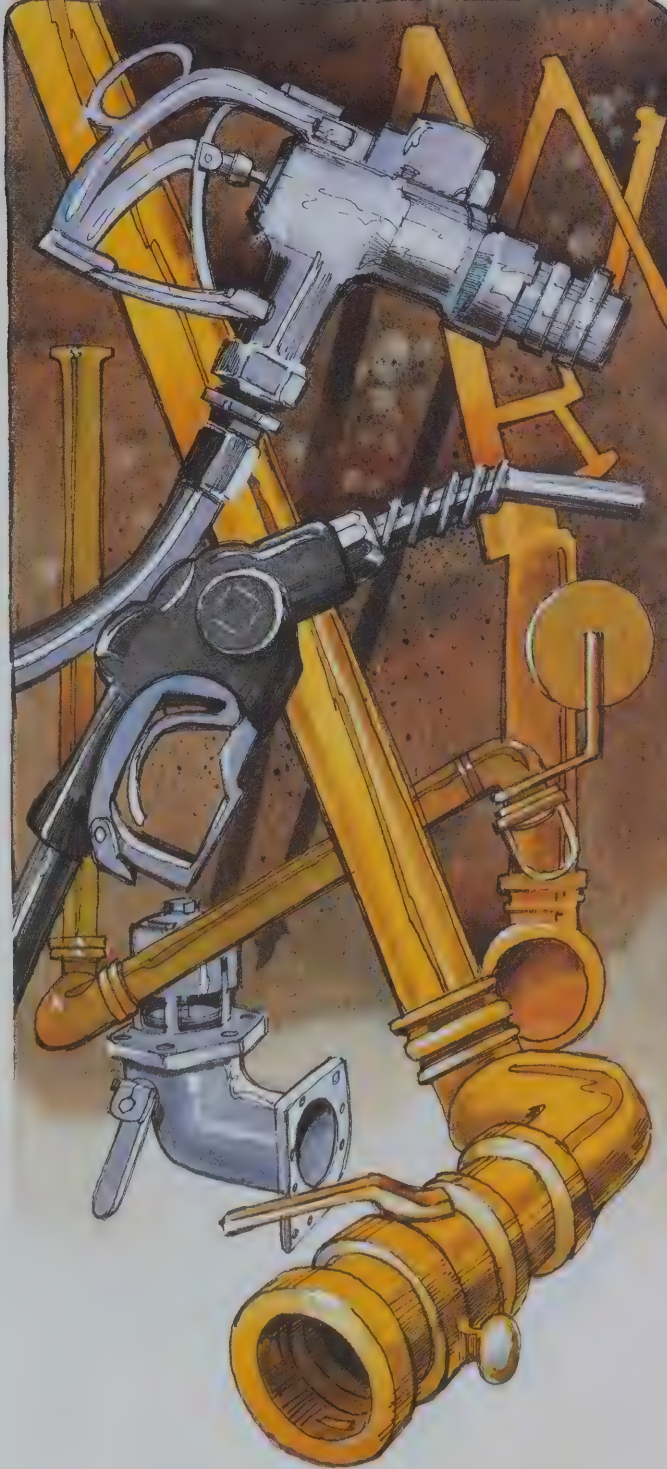
The diversification program, initiated in 1978, is now entering its last phase in 1981 and 1982. The five-year plan to lessen dependence on the petroleum equipment market has so far produced considerable diversification, a 43% compound growth in sales and a significant increase in earnings. We will continue to seek out companies in selected markets whose people and products reinforce our strengths in manufacturing, marketing and distribution.

We feel confident in facing the economic challenge the early eighties poses for our Group. Our geographic growth and product diversification enable us to withstand the effects of recession.

Continuing growth, product diversification and newly-acquired operations provide our employees with numerous opportunities for personal growth. We will continue to promote from within wherever possible and selectively introduce new skills and talents from outside the company. The Group's most important asset is our people at all organizational levels and our success depends upon them. Providing challenge and opportunity for all employees is vital to our results.



R.H. Wedgbury
President, Emco Wheaton International Limited



EMCO LIMITED AND SUBSIDIARIES

Financial Summary

Amounts shown below are thousands of dollars with the exception of data under the heading common share statistics.

Statement of Earnings

	1980	1979	1978	1977	1976	1971 (10 yrs. ago)
Sales	\$316,298	277,305	224,922	189,008	178,135	95,926
Operating income	\$ 31,356	27,319	16,300	12,528	12,157	5,845
Investment income	67	89	112	51	21	11
Foreign currency translation (loss) gain	(699)	477	1,440	989	(348)	—
	30,724	27,885	17,852	13,568	11,830	5,856
Deduct:						
Depreciation	2,809	2,271	2,018	1,775	1,546	985
Interest on short-term debt	6,124	4,160	2,128	1,448	3,019	325
Interest on long-term debt	2,989	2,660	2,202	2,151	854	1,041
Earnings before taxes on income	18,802	18,794	11,504	8,194	6,411	3,505
Taxes on income:						
Current	5,638	8,187	3,937	3,039	2,770	1,757
Deferred	1,286	(146)	863	282	291	92
	6,924	8,041	4,800	3,321	3,061	1,849
Earnings before extraordinary items	11,878	10,753	6,704	4,873	3,350	1,656
Extraordinary items	(90)	347	506	395	136	—
Net earnings	\$ 11,788	11,100	7,210	5,268	3,486	1,656

Changes in Financial Position

	1980	1979	1978	1977	1976	1971 (10 yrs. ago)
Funds provided:						
Operations	\$ 15,790	12,831	9,634	6,982	5,083	2,774
Extraordinary items, net	(90)	347	165	147	(8)	—
Increase in long-term debt	330	1,918	—	—	15,056	6,000
Issue of common shares	2,191	6	—	—	105	41
Proceeds on disposal of property and plant	284	209	492	545	272	—
Total funds provided	18,505	15,311	10,291	7,674	20,508	8,815
Funds used:						
Property, plant and equipment	7,353	3,363	4,013	4,057	5,439	1,791
Decrease in long-term debt:						
Principal	1,308	953	1,210	1,107	900	1,539
Foreign currency translation adjustment	(583)	102	(476)	(450)	16	4
Dividends on common shares	2,425	1,998	1,634	1,453	1,452	723
Acquisitions, net of working capital acquired	—	1,872	—	—	—	—
Other, net	315	624	(135)	254	448	201
Total funds used	10,818	8,912	6,246	6,421	8,255	4,258
Increase in working capital	\$ 7,687	6,399	4,045	1,253	12,253	4,557
Working capital at December 31	\$ 67,216	59,529	53,130	49,085	47,832	25,182

Balance Sheet

Assets	1980	1979	1978	1977	1976	1971 (10 yrs. ago)
Current assets:						
Accounts receivable	\$ 46,914	42,577	33,152	25,849	24,495	13,457
Inventories	89,302	87,783	67,899	52,821	50,737	24,580
Other	3,539	3,738	2,515	2,628	2,110	632
Total current assets	139,755	134,098	103,566	81,298	77,342	38,669
Long-term receivables	1,380	1,056	328	668	280	148
Property, plant and equipment – net	31,895	27,389	24,976	23,081	20,991	10,442
Unamortized debt discount and expense	218	261	308	357	400	470
Goodwill	456	478	—	—	—	—
	\$173,704	163,282	129,178	105,404	99,013	49,729
Liabilities & Shareholders' Equity	1980	1979	1978	1977	1976	1971 (10 yrs. ago)
Current liabilities:						
Short-term borrowings	\$ 36,340	31,725	23,643	12,390	13,421	3,977
Accounts payable and accruals	29,303	30,802	20,754	15,313	13,822	7,497
Other	6,896	12,042	6,040	4,509	2,266	2,014
Total current liabilities	72,539	74,569	50,437	32,212	29,509	13,488
Deferred income taxes	3,435	2,149	2,208	1,295	846	(30)
Long-term debt	23,315	23,711	22,848	23,581	24,238	16,391
Minority interest	166	158	99	305	224	63
Shareholders' Equity						
Capital stock	7,828	5,637	5,631	5,631	5,631	540
Retained earnings	66,421	57,058	47,955	42,380	38,565	19,277
Total shareholders' equity	74,249	62,695	53,586	48,011	44,196	19,817
	\$173,704	163,282	129,178	105,404	99,013	49,729

Common Share Statistics

	1980	1979	1978	1977	1976	1971 (10 yrs. ago)
Basic earnings:						
Before extraordinary items	\$ 2.56	2.37	1.48	1.07	.74	.45
Including extraordinary items	2.54	2.45	1.59	1.16	.77	.45
Fully diluted earnings:						
Before extraordinary items	2.50	2.27	1.42	1.04	.72	.43
Including extraordinary items	2.48	2.35	1.53	1.12	.75	.43
Book value at December 31	15.51	13.81	11.80	10.58	9.74	5.27
Dividends paid	.50	.42	.35	.32	.31	.18%
Price range – high	14.50	12.88	8.88	6.75	9.88	7.25
– low	10.13	7.88	5.50	4.85	5.38	4.50
Return on shareholders' equity at January 1 (based on earnings before extraordinary items)	% 18.9	20.1	14.0	11.0	8.0	8.9

EMCO LIMITED

Consolidated Balance Sheets, December 31, 1980 and 1979

Assets	1980	1979
	(In thousands of dollars)	
Current assets		
Cash	\$ 1,212	1,264
Marketable securities, at cost (quoted value 1980, \$506; 1979, \$924)	516	829
Accounts receivable, less allowance for doubtful accounts (1980, \$2,711; 1979, \$2,290)	46,914	42,577
Inventories, at the lower of cost or net realizable value (note 2)	89,302	87,783
Prepaid expenses	1,811	1,645
Total current assets	139,755	134,098
Long-term receivables	1,380	1,056
Property, plant and equipment, at cost less depreciation (note 3)	31,895	27,389
Unamortized debt discount and expense	218	261
Goodwill, at cost less amortization (note 10)	456	478
	\$173,704	163,282

Liabilities and Shareholders' Equity	1980	1979
	(In thousands of dollars)	
Current liabilities		
Bank and other short-term indebtedness	\$ 36,340	31,725
Accounts payable and accrued expenses	29,303	30,802
Dividends payable	622	499
Current portion of long-term debt	1,119	785
Income and other taxes payable	5,155	10,758
Total current liabilities	72,539	74,569
Deferred income taxes	3,435	2,149
Long-term debt (note 4)	23,315	23,711
Minority interest in subsidiary companies	166	158
Shareholders' equity:		
Capital stock, common shares (note 5)	7,828	5,637
Retained earnings	66,421	57,058
Total shareholders' equity	74,249	62,695
	\$173,704	163,282

See accompanying notes to consolidated financial statements.

On behalf of the Board:

J.W. Adams, Director

C.N. Chapman, Director

EMCO LIMITED

Consolidated Statements of Earnings, Years ended December 31, 1980 and 1979

	1980	1979
	(In thousands of dollars)	
Sales, less sales taxes	\$316,298	277,305
Operating income after minority shareholders' interest but before the undernoted items	\$ 31,356	27,319
Investment income	67	89
	31,423	27,408
Deduct:		
Foreign currency translation loss (gain)	699	(477)
Depreciation	2,809	2,271
Interest on bank and other short-term indebtedness	6,124	4,160
Interest on long-term debt	2,989	2,660
Earnings before taxes on income	18,802	18,794
Taxes on income (note 6):		
Current	5,638	8,187
Deferred	1,286	(146)
	6,924	8,041
Earnings before extraordinary items	11,878	10,753
Extraordinary items (note 7)	(90)	347
Net earnings	\$ 11,788	11,100
Earnings per common share:		
Basic:		
Before extraordinary items	\$ 2.56	2.37
Extraordinary items	(.02)	.08
	\$ 2.54	2.45
Fully diluted:		
Before extraordinary items	\$ 2.50	2.27
Extraordinary items	(.02)	.08
	\$ 2.48	2.35

See accompanying notes to consolidated financial statements.

EMCO LIMITED

Consolidated Statements of Retained Earnings, Years ended December 31, 1980 and 1979

	1980	1979
	(In thousands of dollars)	
Amount at beginning of year	\$ 57,058	47,956
Add net earnings	11,788	11,100
	68,846	59,056
Deduct dividends	2,425	1,998
Amount at end of year	\$ 66,421	57,058

See accompanying notes to consolidated financial statements.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheets of Emco Limited as at December 31, 1980 and December 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and December 31, 1979 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

London, Canada
February 20, 1981

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Management's Report to the Shareholders

The financial statements of the company have been prepared by management in accordance with generally accepted accounting principles consistently applied. Management is responsible for all information in the Annual Report and financial and operating data in the Report are consistent, where appropriate, with the financial statements.

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to February 20, 1981. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in note 1 of the notes of the consolidated financial statements.

London, Canada
February 20, 1981

John W. Adams
President, Chief Executive Officer

W. Wesley De Shane
Secretary-Treasurer

EMCO LIMITED

Consolidated Statements of Changes in Financial Position, Years ended December 31, 1980 and 1979

	1980	1979
	(In thousands of dollars)	
Funds provided:		
Operations:		
Net earnings before extraordinary items	\$ 11,878	10,753
Depreciation	2,809	2,271
Deferred income taxes	1,286	(146)
Amortization of debt discount and expense and goodwill	64	48
Gain on disposal of fixed assets	(247)	(95)
Funds provided from operations	15,790	12,831
Proceeds on disposal of property and plant	284	209
Increase in long-term debt	330	1,918
Issue of common shares	2,191	6
Other	8	104
Total funds provided	18,603	15,068
Funds used:		
Extraordinary items, net	90	(347)
Property, plant and equipment	7,353	3,363
Decrease in long-term debt:		
Reduction of principal	1,308	953
Foreign currency translation (loss) gain	(583)	102
Net decrease	725	1,055
Dividends	2,425	1,998
Acquisition of businesses net of working capital acquired (note 10)	—	1,872
Other	323	728
Total funds used	10,916	8,669
Increase in working capital	\$ 7,687	6,399
Working capital at end of year	\$ 67,216	59,529

See accompanying notes to consolidated financial statements.

EMCO LIMITED

Notes to Consolidated Financial Statements, December 31, 1980 and 1979

1. Accounting policies:

The accompanying financial statements are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects to international accounting standards. Significant accounting policies are summarized below.

Principles of consolidation The accompanying financial statements consolidate the accounts of all subsidiary companies. All material intercompany balances and transactions have been eliminated.

Foreign currency transactions Amounts in foreign currencies are translated into Canadian dollars as follows:

Current assets except inventories, and current liabilities – at rates current at the year ends.

Inventories, property, plant and equipment, and goodwill – at rates in effect at dates of acquisition.

Long-term debt – at rates current at the year ends.

Operating income and expenses – at average rates during the years except for depreciation and amortization of goodwill which are on the same basis as the related assets.

Gains and losses resulting from such translation practices are reflected in the statements of earnings.

Depreciation Depreciation is generally provided on a straight-line basis over the estimated useful lives of the assets. Depreciation rates are as follows: buildings 2.5% and 5%; roadways 10%; machinery and equipment 10% and 20%.

Amortization of debt financing expense The discount and expense on long-term debt is being amortized over the term of the debt in proportion to the principal amount outstanding during each year. The amounts amortized are included in interest on long-term debt expense in the statements of earnings.

Amortization of goodwill Goodwill, which represents the excess of cost over the fair value of net assets acquired in business combinations, is being amortized over the estimated life of the goodwill.

Research and development expenses Costs associated with research and development of new products and improvements to existing products are expensed as incurred.

Earnings per share Basic earnings per share are calculated using the weighted daily average number of shares outstanding.

Fully diluted earnings per share are calculated on the assumption that options and warrants outstanding during

the year were exercised at the beginning of the year; and that funds derived therefrom had been used to reduce bank indebtedness and related interest costs. The interest deducted less related income taxes was \$108,000 for 1980 and \$153,000 for 1979.

2. Inventories

	1980	1979
	(In thousands of dollars)	
Raw materials	\$ 6,700	7,001
Work in process	21,109	19,762
Finished goods	62,160	61,664
	89,969	88,427
Less: Progress billings	667	644
	\$89,302	87,783

3. Property, plant and equipment

	1980	1979
	(In thousands of dollars)	
Buildings and roadways	\$23,149	21,620
Machinery and equipment	26,792	21,517
	49,941	43,137
Less accumulated depreciation	21,938	19,472
	28,003	23,665
Land	3,892	3,724
	\$31,895	27,389

4. Long-term debt

	1980	1979
	(In thousands of dollars)	
<i>Emco Limited</i>		
5¼% sinking fund debentures due June 15, 1985	\$ 3,242	3,370
9¾% sinking fund debentures due July 15, 1990	3,972	4,033
Note due April 15, 1982 (U.S. \$5,000,000)	5,968	5,832
Note payable in instalments to December 16, 1986 (U.S. \$6,331,536 and Cdn. \$1,000,000)	8,557	8,890
13½% mortgage payable in monthly instalments due September 15, 1987	330	—
<i>Subsidiary companies</i>		
Note payable in instalments due October 31, 1984 (Australian \$1,400,000)	1,955	1,918

6% mortgage note payable in monthly instalments due August 1, 1986 (U.S. \$202,525)	241	271
9% mortgage payable in monthly instalments due October 1, 1989	169	182
	24,434	24,496
Less amounts due within one year included with current liabilities	1,119	785
	\$23,315	23,711

Interest on the notes for which no fixed rates of interest is shown will change from time to time in relation to the lenders' cost of borrowing. The interest rates at December 31, 1980 were 23.9%, 19.9% and 13.5% respectively and at December 31, 1979, the rates were 15.5%, 15.1% and 11.6% respectively.

Long-term debt falling due or to be met out of sinking fund payments in the five years ending December 31, 1985, after taking into account the principal amount of debentures repurchased by the company which have been tendered to the trustee in respect of future sinking fund payments, aggregates \$1,119,000 in 1981; \$7,600,000 in 1982; \$1,874,000 in 1983; \$2,082,000 in 1984 and \$6,009,000 in 1985.

5. Capital stock

Authorized, issued and outstanding

	Number of Shares		
	Issued and Outstanding		
	Authorized	1980	1979
Preference shares without par value	5,000,000	—	—
Common shares without par value	12,000,000	4,785,831	4,540,514

During 1980, 245,317 common shares were issued for a cash consideration of \$2,191,000 on the exercise of warrants. During 1979, 700 shares were issued for \$6,000 on the exercise of warrants.

Share options At December 31, 1980, 188,550 common shares had been reserved for issuance under a share option plan for certain key executives. Options expiring March 31, 1985 on 10,000 shares with an exercise price of \$11.00 were outstanding at December 31, 1980.

Share purchase plan During 1968, a share purchase plan was approved whereby the employees of the company and its subsidiaries (excluding officers and directors of Emco Limited) may purchase common shares of the company. As at December 31, 1980, there were 128,145 shares available for future subscriptions. There were no transactions during 1980 or 1979.

Dividend restrictions The trust deeds relating to the debentures each contain provisions whereby dividends may not be declared or paid, other than stock dividends, and the company may not effect any reduction to its capital stock which would reduce net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1980 and December 31, 1979 the net current assets and shareholders' equity (as so defined) were substantially in excess of minimum levels.

6. Taxes on income

Taxes on income for 1980 were reduced by \$406,000 through the application of investment tax credits arising from the purchase of property, plant and equipment. In addition, a change in estimated income taxes in respect of prior years has reduced the 1980 income tax charge by \$410,000.

Deferred taxes on income for 1979 were reduced by \$290,000 as a result of changes in the United Kingdom inventory tax relief legislation.

During 1980, the Board of Inland Revenue in the U.K. issued a consultative document, the provisions of which are expected to be enacted in 1981. When enacted, accumulated income tax liabilities at December 31, 1980 will be reduced by approximately \$1,500,000. This reduction will then be accounted for as an extraordinary gain.

7. Extraordinary items

	1980	1979
	(In thousands of dollars)	
Loss on disposal of investment	\$ (268)	—
Reduction in income taxes of subsidiary companies from the application of losses carried forward	178	347
	\$ (90)	347

8. Directors and senior officers remuneration

The aggregate direct remuneration paid or payable by the company to directors and senior officers was \$939,000 for the year ended December 31, 1980 and \$821,000 for the year ended December 31, 1979.

EMCO LIMITED

Notes to Consolidated Financial Statements, December 31, 1980 and 1979 (continued)

9. Pension plans

The company has no significant liability for past services under its pension plans.

10. Acquisitions

During 1979, the company and its subsidiaries acquired the business and net assets of certain companies engaged in the manufacture and distribution of fluid handling and storage equipment used in the oil and petrochemical industries. The acquisitions were accounted for by the purchase method as follows:

Assets acquired, at fair value	\$10,346,000
Liabilities assumed	6,326,000
Net assets acquired	4,020,000
Cash consideration	4,499,000
Goodwill	\$ 479,000

Goodwill, which arose on the purchase of the J.B. Reimann Group in Australia, is being amortized over 20 years. Other companies acquired were RNG Equipment Ltd. and Ritepro Inc. of Montreal and Engineering Products Pty. Limited of Australia.

11. Subsequent event

Subsequent to December 31, 1980, the company has agreed to acquire the business of Horn KG of West Germany for approximately \$18,250,000. The transaction is expected to be completed on or about March 31, 1981.

While Horn has an excellent record of profitability and growth, it is anticipated that the acquisition will not have a significant impact on Emco's 1981 earnings after deducting interest and other acquisition related costs.

12. Segmented Information

Management and the directors of the company have determined that Emco's classes of business are the manufacture and sale of Plumbing and Industrial Products and Energy Related Products. The operating results and identifiable assets by industry segment and geographic area are as follows:

Industry Segments	Plumbing and Industrial Products		Energy Related Products		Eliminations		Consolidated	
	1980	1979	1980	1979	1980	1979	1980	1979
(in thousands of dollars)								
Sales to outside customers	\$205,604	195,490	110,694	81,815	—	—	316,298	277,305
Inter-segment sales	—	—	6,931	5,602	(6,931)	(5,602)	—	—
Total revenue	\$205,604	195,490	117,625	87,417	(6,931)	(5,602)	316,298	277,305
Segment operating profit	\$ 17,636	16,452	15,034	12,744	(8)	(150)	32,662	29,046
General corporate and other expenses							(1,306)	(1,727)
							31,356	27,319
Identifiable assets	\$ 93,422	87,245	80,999	76,778	(717)	(741)	173,704	163,282
Depreciation and amortization	\$ 1,416	1,345	1,457	974	—	—	2,873	2,319
Capital expenditures	\$ 4,810	2,225	2,543	1,138	—	—	7,353	3,363

Geographic Areas	Canada		U.S.A.		Europe		Other		Eliminations		Consolidated	
	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979
(in thousands of dollars)												
Sales to outside customers	\$240,332	218,165	35,538	30,389	23,284	17,503	17,144	11,248	—	—	316,298	277,305
Inter-segment sales	253	78	615	837	454	445	1	—	(1,323)	(1,360)	—	—
Total revenue	\$240,585	218,243	36,153	31,226	23,738	17,948	17,145	11,248	(1,323)	(1,360)	316,298	277,305
Segment operating profit	\$ 24,123	21,592	4,020	4,702	2,746	1,984	1,675	823	98	(55)	32,662	29,046
General corporate and other expenses											(1,306)	(1,727)
											31,356	27,319
Identifiable assets	\$125,720	121,579	22,310	19,424	15,570	13,569	13,486	11,158	(3,382)	(2,448)	173,704	163,282

DIRECTORS

John W. Adams, FCA
London, Ontario
President and Chief Executive Officer, Emco Limited

Erwin H. Billig
Taylor, Michigan
Group Vice-President, Masco Corporation

C. Norman Chapman
London, Ontario
Chairman of the Board, Emco Limited

Fred L. Donnell
Indianapolis, Indiana
Group Vice-President, Masco Corporation

Peter J. Ivey
London, Ontario
President, Cambarex Investments Limited

David L. Johnston
Montreal, Quebec
Principal and Vice-Chancellor, McGill University

Frederick W.P. Jones
London, Ontario
Business Consultant

Wayne B. Lyon
Taylor, Michigan
Executive Vice-President, Masco Corporation

Ralph S. MacLean
London, Ontario
Vice-President, Plumbing and Industrial Group, Emco Limited

Richard A. Manoogian,
Taylor, Michigan
*Vice-Chairman of the Board, Emco Limited
President, Masco Corporation*

Edwin C. Phillips
Vancouver, British Columbia
*Chairman and Chief Executive Officer,
Westcoast Transmission Company Limited*

Robert W. Stevens, Q.C.
Toronto, Ontario
Partner, Blake Cassels and Graydon

David B. Weldon
Toronto, Ontario
Chairman of the Board, Midland Doherty Limited

OFFICERS

C. Norman Chapman
Chairman of the Board

Richard A. Manoogian
Vice-Chairman of the Board

John W. Adams, FCA
President and Chief Executive Officer

Ralph S. MacLean
Vice-President, Plumbing and Industrial Group

Stuart F. Smith
Vice-President, General Manufacturing Division

W. Wesley De Shane, CA
Secretary-Treasurer

TRANSFER AGENTS AND REGISTRARS

The Royal Trust Company Toronto, Montreal and Winnipeg (5¾% debentures); Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver (common shares); The Canada Trust Company Toronto, Montreal and Winnipeg (9¾% debentures)

AUDITORS

Peat, Marwick, Mitchell & Co.
London, Canada

EMCO LIMITED

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